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Westly Withholds Support of Health Care Mergers to Ensure No Increased Health Costs

SACRAMENTO – State Controller and CalPERS board member Steve Westly said today he is withholding his support from two major health care company mergers and urged the rest of the $190 billion California Public Employees' Retirement System (CalPERS) board to do the same.

"These mega-mergers raise concerns about how industry consolidation will affect health care costs for consumers, employers and taxpayers," Westly said. "Decreased competition typically leads to increased costs, which could make health care too expensive for Californians. The board should withhold support from the WellPoint-WellChoice and PacifiCare-UnitedHealth mergers until we are satisfied that they will produce real benefits for our members."

WellPoint, Inc. and WellChoice, Inc. this week announced their intention to merge. This transaction comes on the heels of the July merger proposal of PacifiCare and United Health Group, through subsidiary Point Acquisition LLC. Last November, WellPoint and Anthem merged, producing the nation's largest health plan.

"Whether these mergers will yield real benefits for patients is an open question," Westly said, citing a recent California Health Care Foundation study that reported earnings for California HMOs climbed from $827.1 million in 2002 to $2.2 billion in 2003 – the largest profits recorded in a decade. At the same time, CalPERS experienced three consecutive years of double digit rate hikes totaling more than 50 percent. CalPERS is the nation's third largest health care purchaser.

"CalPERS members may have gained value from HMO stock performance only to lose those profits (and maybe more) through higher health costs," Westly said.

The WellPoint-WellChoice and PacifiCare-United Health mergers involve more than 10 million California patients, including the nearly 300,000 that belong to CalPERS plans managed by Blue Cross of California, a subsidiary of WellPoint.

Please see the attached letter from Controller Westly to the CalPERS board.

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STEVE WESTLY
California State Controller

September 30, 2005

Mr. Rob Feckner
President, Board of Administration
CalPERS
400 P Street
Sacramento, CA 95814

Dear President Feckner:

WellPoint, Inc. and WellChoice, Inc. this week announced their intention to merge. This transaction presents shareholders with their second major healthcare deal to approve this year, following the July merger proposal of PacifiCare and United Health Group, through subsidiary Point Acquisition LLC.

These mega-mergers raise concerns about how industry consolidation will affect health care costs for consumers, employers and taxpayers. Decreased competition typically leads to increased costs, which could make health care too expensive for Californians.

I urge the CalPERS Board of Administration to withhold its support from the mergers until we have thoroughly investigated their impact not only on shareholder value, but also on our health programs and on the health care market.

Last November, WellPoint and Anthem closed their merger, producing the nation's largest health plan. Executives of the companies claimed that the merger would benefit patients by delivering affordable, quality healthcare. Now, less than one year later, shareholders and regulators are being asked to approve two more health care unions that executives assert will help lower overhead costs and keep premiums affordable.

Whether these mergers will yield real benefits for patients is an open question. A recent California Health Care Foundation study reported earnings for California HMOs climbed from $827.1 million in 2002 to $2.2 billion in 2003 – the largest profits recorded in a decade. The HMOs earned these profits during a period in which CalPERS experienced three consecutive years of double digit rate hikes totaling more than 50 percent. CalPERS members may have gained value from HMO stock performance only to lose those profits (and maybe more) through higher health costs.

-More-

I believe that CalPERS and other large health care consumers are best equipped to hold down health care costs through competition on price, quality and value. That is the approach we took last year when the Board approved a narrow hospital network. We made that decision based on findings that hospital consolidation may have resulted in higher prices. It is imperative that we ensure that HMO consolidation will not have the same effect.

I am also concerned about potentially excessive payouts that HMO executives stand to gain if the deals close. While this is just one small part of the equation, the Board should consider executive compensation in the context of these mergers.

The WellPoint-WellChoice and PacifiCare-United Health mergers involve more than 10 million California patients, including the nearly 300,000 that belong to CalPERS plans managed by Blue Cross of California, a subsidiary of WellPoint. While the mergers will not immediately change the number of HMOs in California, they clearly affect the market in which CalPERS is fighting to obtain the best value for its members.

CalPERS and local agencies throughout the state face an unfunded health liability that will come due in 2007. We have barely begun our serious efforts to control health care spending and reduce this liability; we must ensure that HMO consolidation does not impede these efforts.

I urge CalPERS to evaluate the deals not just as shareowners with the nation's largest public pension fund, but as leaders of the country's third largest health care purchaser. The Board should withhold its support from the WellPoint-WellChoice and PacifiCare-UnitedHealth mergers until we are satisfied that they will produce real benefits for our members.

Sincerely,

STEVE WESTLY
California State Controller

cc: Members, Board of Administration
Fred Buenrostro, Chief Executive Officer
Mark Anson, Chief Investment Officer
Jarvio Grevious, Deputy Executive Officer

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